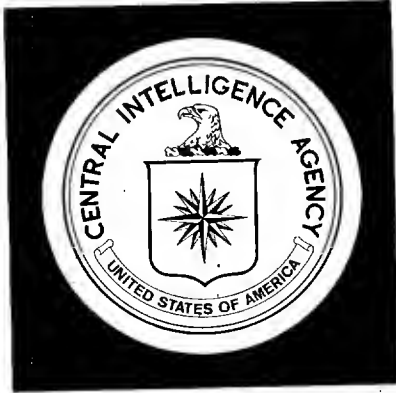


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No. 0219/72
12 September 1972

Central Intelligence Bulletin

CONTENTS

ISRAEL - ARAB STATES: Another major terrorist attack may be imminent. (Page 5)

VIETNAM: Government forces press to recapture Quang Tri City. (Page 7)

LIBYA: A funeral for terrorists killed in Munich may spark demonstrations. (Page 8)

JAPAN-TAIWAN: Japanese plans for relations with Taiwan have run into more complications. (Page 9)

CHILE: Allende is trying to defuse the tense political situation. (Page 10)

WARSAW PACT: Forces deploying for large exercise (Page 11)

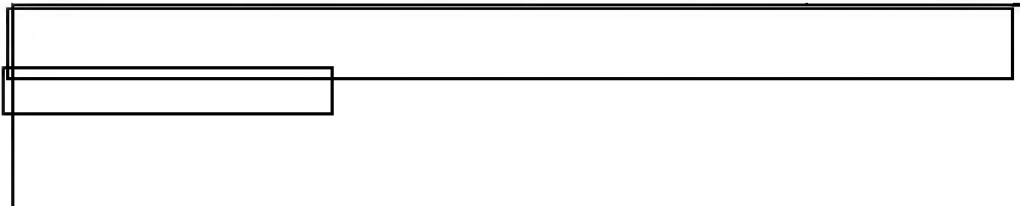
PERU: The government stiffens its terms for new oil ventures with foreign firms (Page 11)

SECRET

Next 3 Page(s) In Document Exempt

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ISRAEL - ARAB STATES: Another spectacular Arab guerrilla incident may be imminent.



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There have been other indications that the guerrillas, elated with the outcome of the Munich affair, intend to keep up the pressure on Israel and to focus international attention on the Palestinian question. A member of the Israeli Embassy in Brussels was entrapped and seriously wounded on 10 September by an Arab identifying himself as a Moroccan national. In Israel, guerrillas fired at an Israeli patrol near Hebron on the West Bank of Jordan. There were no casualties.

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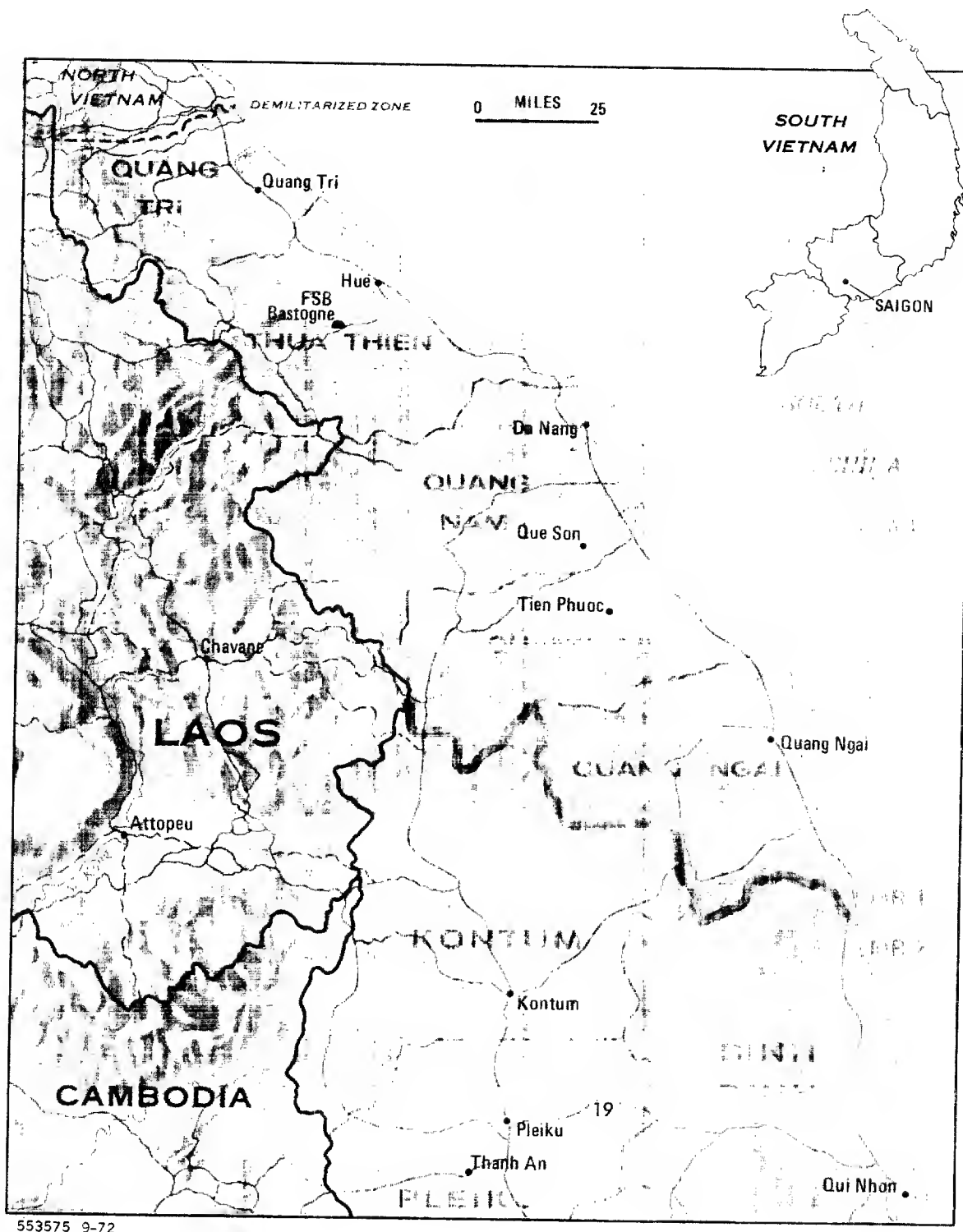
12 Sep 72

Central Intelligence Bulletin

5

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VIETNAM: South Vietnamese forces are pressing their effort to recapture Quang Tri City despite determined enemy resistance. Ranger and airborne units have been fighting around the clock against Communist forces to the north and south of the town, and a forward marine unit reportedly has entered the citadel. Casualties on both sides have been heavy.

South Vietnamese 1st Division elements are also attacking southwest of Fire Support Base Bastogne in Thua Thien Province and are encountering stiff opposition. Action remained light in the southern three provinces of Military Region 1. Most of the fighting was concentrated around the district capital of Tien Phuoc in Quang Tin Province, where enemy forces still hold the town against government units trying to retake it.

Recent indications that the enemy's 52nd Regiment has moved from the highlands to Quang Ngai Province suggest that the Communists may soon raise the level of fighting in this area. Quang Ngai so far has escaped heavy attack, but with the enemy's 2nd Division already in the province the addition of the 52nd could mean that the Communists plan to expand their coastal battlefield to include all of the central provinces.

The heaviest enemy attacks elsewhere occurred in Pleiku Province, where units from the enemy's 320th Division continued to harass government patrols in the Thanh An area and to hit truck convoys along Route 19 northeast of the town.

25X1

12 Sep 72

Central Intelligence Bulletin

7

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LIBYA: A funeral this week in Tripoli for the five fedayeen killed in Munich may provoke anti-German demonstrations.

According to the Libyan press, several wealthy Libyan businessmen have received custody of the bodies and intend to stage a large public burial. Although the Libyan Government is not publicly involved, protocol officers are reportedly assisting the delegation of private citizens sponsoring the services. The West German diplomatic mission has tightened its security in anticipation of a mob attack on its chancery similar to the violent assault on the British Embassy last month. US officials in Tripoli feel that the stage is set for serious demonstrations, and they fear that other Western embassies may also be targets for angry Libyan protesters.

The Libyan media and some government officials have bitterly denounced West Germany in the wake of the event in Munich. President Qadhafi, however, who reportedly issued a strong reprimand to leaders of the attack on the British Embassy, has remained silent. Nevertheless, the Libyan leader is deeply committed to the Palestinian cause, and he could encourage excesses by going beyond a ceremonial tribute to the fallen fedayeen commandos.

25X1

12 Sep 72

Central Intelligence Bulletin

8

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JAPAN-TAIWAN: Domestic opposition in Japan and Taipei's refusal to talk have complicated Tokyo's planning for relations with Taiwan after recognition of Peking.

A top Foreign Office official told the US Embassy on 9 September that Japan did not expect to maintain any diplomatic presence on Taiwan after it exchanges ambassadors with Peking. The official said that, because the problem is an active political issue in Japan, planning for the post-normalization situation is being tightly held to avoid giving pro-Taipei elements any ammunition to attack the government. As a result, the various ministries involved have not yet reached a coordinated position. Three mechanisms for continuing ties are being considered--a Japanese interests section in a resident embassy, a quasiofficial trade office, or a private trade and cultural association.

Taipei is presently tolerating some rather harsh talk in its press about possible retaliatory measures against Japan. According to a top Nationalist Chinese official, Taipei will refuse to discuss the problem of relations in the post-normalization period with the Japanese Government emissary who is scheduled to visit Taipei later this week. The official stated, however, that Taipei intends to retain the fullest possible de facto relations with Tokyo.

The Japanese expect that, when relations are broken, there may be some "unhappy incidents" in Taiwan and some temporary disruption of trade. The Japanese Government is fully aware, however, that Taiwan could not substantially reduce its economic ties with Japan without paying a very heavy price. Tokyo also believes that Peking, in view of the flexibility it has shown in recent contacts with the Japanese, will not object to a continuation of Japan-Taiwan economic ties.

12 Sep 72

Central Intelligence Bulletin

9

SECRET

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CHILE: President Allende is again making overtures toward the opposition to defuse the tense political situation.

Allende, who has watched the buildup of violence with growing concern, on 10 September publicly invited the Christian Democrats to resume a dialogue with him "to avoid armed confrontation." In addition, the government has authorized a major demonstration on 14 September by opposition parties. Both moves appear calculated to exploit divisions between opposition elements who still favor political solutions and those who would provoke violence in the hope of a showdown that would bring down the government.

In his remarks on 10 September, Allende again denounced extremists on both the left and right. He had particularly harsh words for the violence-prone ultras in his own Socialist Party (PS), whom he labeled "traitors twice over."

In a possibly related development, there are conflicting press reports that PS Secretary-General Carlos Altamirano has resigned. His advocacy of the extremist approach is particularly galling to Allende and his resignation, if confirmed, would remove one serious obstacle to Allende's efforts to restore political calm.

25X1

12 Sep 72

Central Intelligence Bulletin

10

SECRET

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WARSAW PACT: Shield-72, this year's major Warsaw Pact exercise, will be held in Czechoslovakia this week. According to an official Czech announcement, the commander in chief of the Warsaw Pact, Marshal Yakubovskiy, and the Pact chief of staff, General Shtemenko, as well as military delegations from all Pact countries and Mongolia arrived in Czechoslovakia in the last two days to attend the exercise. Combat troops from Czechoslovakia, Poland, East Germany, Hungary, and the Soviet Central Group of Forces are involved, with Romania and Bulgaria limiting their participation to staff elements. Judging from past exercises, the Shield-72 scenario will be a NATO attack into Czechoslovakia from West Germany and Austria followed by a successful counterattack by defending Pact forces. [REDACTED]

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PERU: Bolstered by favorable results from preliminary drilling at its own test wells, the State Petroleum Company--Petroperu--is stiffening its terms somewhat for new joint venture contracts. Peruvian Sun Oil Company, one of 13 foreign firms that will be developing tracts in the northeastern jungle region, will be required to lend Peru 4,000 barrels per day of crude oil over a two-year period. A number of other companies preparing to sign contracts for remaining tracts may be forced to grant the government one-time cash loans of up to \$8 million. In addition, Petroperu will now demand 54 percent of total production from the oil fields, compared with 50 percent in contracts concluded earlier. Foreign investors are unlikely to be deterred by these modifications in the rules, because Peru's terms still compare very favorably with those offered by other oil-producing countries. [REDACTED]

25X1

12 Sep 72

Central Intelligence Bulletin

11

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